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ABSTRACT

This report examines how seven merit scholarship programs in six southern states help increase participation in postsecondary education. The programs are: Florida Bright Futures; Georgia HOPE Scholarships; Kentucky Educational Excellence Scholarships; Louisiana Tuition Opportunity Program for Students; Maryland Science and Technology Scholarship Program; South Carolina Palmetto Scholars, and South Carolina Legislative Incentives for Future Excellence. It finds in the programs such common features as: a basis only in academic achievement; encouragement to attend colleges in the student's home state; and provision of financial aid to middle income families. The report identifies factors that influenced the establishment of these programs, including increases in college costs, reductions in the share of public college revenues from state appropriations, and changes in the type and sources of financial aid. An evaluation of Georgia's program notes that: (1) more students from low-income families are applying for federal Pell Grants (required of HOPE applicants from low-income families); (2) both high school grades and college entrance examination scores have improved; and (3) HOPE recipients (in comparison with similar students) have earned more college credits, have higher grade-point averages, and are less likely to drop out of college. A table that compares all seven programs is included. (Contains 10 references.) (DB)

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SREB

State-funded Merit Scholarship Programs:

Why are they popular?

Can they increase participation in higher education?

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1998 BENCHMARKS SERIES

COLLEGE ATTENDANCE

BY THE YEAR 2000—

The percentage of adults who have attended college or earned two-year, four-year and graduate degrees will be at the national averages or higher.

State-funded Merit Scholarship Programs:

Why are they popular? Can they increase participation in higher education?

In 1993 Georgia's HOPE Scholarship program was established. Funded by the state lottery, the program provides a financial incentive for high school students to earn a "B" average, continue their education after high school and maintain a "B" average in college. Eligible students receive a scholarship that pays for tuition and fees and includes a book allowance. The program also was intended to help middle-income families and is not based on their financial situation or ability to pay college costs. The first awards were given to students who entered colleges and universities in fall 1994.

Since then, several SREB states have passed legislation to begin state-funded merit scholarships. Those programs include Florida's Bright Futures Scholarships (1997); Louisiana's Tuition Opportunity Program for Students (1997); Kentucky's Educational Excellence Scholarships (1998); Maryland's Science and Technology Scholarship Program (1998); South Carolina's Palmetto Scholarships (1996) and Legislative Incentives for Future Excellence Scholarships (1998).

While each state's program is different, some characteristics are universal:

- Scholarships are based on a student's academic achievement, and the amount of the award is not based on the family's ability to pay for college.
- Students have incentives to meet and maintain high standards in high school and college.
- The scholarships encourage the "best and brightest" students to attend colleges in their home state.
- The scholarships help middle-income families.

At the same time states were establishing these merit scholarships, the federal government and state governments were passing legislation to encourage parents to save more for college. States established prepaid tuition and college savings plans. Federal legislation, such as the HOPE Scholarship Tax Credit and the Lifetime Learning Tax Credit, established several income-tax breaks for students and families saving and paying for postsecondary education.

This report was prepared by Joseph D. Creech, SREB director of educational policies.

What factors influenced the establishment of these programs? Do these programs signal a shift away from the notion that student financial aid should be intended primarily to provide access to those who have the least ability to pay?

Factors influencing establishment of state-funded merit scholarship programs

Increases in college costs

- Since the mid-1980s, increases in tuition and fees have exceeded inflation and growth in median family income.
- In the SREB region, median tuition and required fees for full-time students attending a public four-year college in their home state represent about 7 percent of the median family income, ranging from 5 percent in North Carolina to 11 percent in Virginia.
- Tuition and fees account for less than one-third of the total cost to attend college as a full-time student. When other costs — housing, meals, books, supplies, transportation and miscellaneous items — are added in, the average total cost of attending a public four-year college in the South is about $8,850 per year. That amount is about 30 percent of the median family income in the region ($29,100). Put another way, the average cost of attending a public college or university for four years exceeds what most families in the SREB states earn in one year.
- Three of five families nationwide earn less than $42,000 per year. In the mid-1990s it took at least 5 percent more of their income to pay for a year at a public four-year college than it did 20 years ago. For families with incomes above $65,000, the percentage of income required to pay for a year of public college did not change over that period.

Reductions in the share of public college revenues from state appropriations

In 1996-97 state appropriations accounted for 72 percent of public college revenues — a smaller percentage than 10 years ago (78 percent) — in the SREB region. Students and their parents are paying a larger portion of the costs of college, and the costs are greater.

Changes in the type and sources of financial aid

- Twenty-five years ago $3 of every $10 of financial aid was from loans; today, loans account for $6 of every $10. Pell Grants, the nation's largest need-based grant program, now cover less than half the cost of attending a public university. Because less financial aid comes in the form of grants and because the maximum grant covers a

smaller percentage of college costs, more students and their parents are burdened with substantial loans.

- In the SREB states, student financial aid from state and local governments ranges from less than 1 percent to more than 12 percent of all student aid. It is about 7 percent nationally and 5 percent in the SREB region.

These factors create public anxiety (especially among middle-income families) that the skyrocketing cost of attending colleges and universities might leave their children "priced out" of college. In states where tuition and fees historically have been low, these increases may give families even more "sticker shock."

Concerns about improving preparation for college and college graduation rates

- Information from studies of high school graduates shows that students who plan for, enroll in and graduate from college are those who take challenging courses in high school and make good grades in those courses. Clifford Adelman, who has analyzed a national sample of high school graduates as they progress from high school through college, says those who complete college degrees are those "who were best prepared for college, regardless of race, regardless of financial aid."
- Numerous studies in states show that students who do not take a solid college-preparatory program in high school and who do not make good grades in those courses are less likely to succeed in college than those who do. Most state leaders recognize that programs based on ability to pay or financial need are necessary, but there also is a growing concern that many who receive need-based grants are not academically prepared and do not succeed in college-level courses. State leaders recognize the need to lower financial barriers to ensure access to college, but they also are concerned about the role that financial aid plays in state strategies to better prepare students to complete two-year and four-year degrees.

What are the pros and cons of merit-based scholarship programs?

The "HOPE-like" scholarship programs have been lauded by some and derided by others. Proponents of these programs say that they will raise the academic expectations for high school students dramatically, will encourage more students to complete more challenging courses in high school and will raise student achievement levels. They think such awards can help the middle class, especially since they reduce the amount of debt that students and their parents must incur.

Others say such scholarship programs do not help poor students because those students typically do not have "B" averages in challenging courses. Opponents of the scholarships say that the recipients do not need them as much

as students who do not have "B" averages and that the merit-based awards will result in grade inflation. A major concern is that state-sponsored merit scholarships reduce the funds available to the most needy students.

What do reports on these programs show?

Because the state-funded merit scholarship programs are so new, there is little information about their effects. Georgia's HOPE Scholarship program is the only one that has operated long enough for its impact to be assessed. The Applied Research Center at Georgia State University has evaluated the HOPE Scholarship program for the Georgia Council for School Performance. Among the findings in the June 1998 report:

- More high school students are earning "B" averages and receiving HOPE Scholarships. SAT scores have increased, too; average scores for 1997 HOPE recipients are 35 points higher than for the 1994 group. If high school grades were being inflated to make more students eligible for HOPE Scholarships, higher SAT scores would not be expected.
- More students from low-income families are applying for federal Pell Grants; the number of Pell Grant recipients has increased since the HOPE program began, even though the number of high school graduates has not increased significantly. Students from low-income families who apply for HOPE Scholarships also must apply for Pell Grants (a maximum award of $2,700 in 1997-98). Students who receive Pell Grants and meet the requirements for the HOPE Scholarship receive a book allowance from HOPE in addition to the Pell Grant. The number of students who qualify for Pell Grants and the HOPE Scholarship book allowance has increased by 45 percent (from 3,700 to 5,400) since 1994.
- About one-third of the 1994 HOPE Scholars have maintained a "B" average in college and have kept their scholarships for four years. Even those who lost their scholarships are staying in college at higher-than-expected rates.
- Compared with students of similar backgrounds who entered college in 1994, HOPE Scholarship recipients:
  - earned more credits in the first two years of college;
  - had slightly higher grade-point averages after two years of college; and
  - were less likely to drop out of college.

Not all states have neglected need-based financial aid programs while funding merit-based programs. For example, when Kentucky created its merit-based scholarships, it also provided enough money to support 100 percent of the projected need for the state's need-based grant program.

How can scholarship programs help increase participation in postsecondary education?

People nationwide are concerned about what we expect of students in our schools and colleges. How can financial aid programs help students meet higher standards for learning and develop the higher-order skills necessary for this nation to compete in the 21st century? Neither merit-based nor need-based financial aid programs alone can achieve this objective, but each plays an important role.

Not all states have the resources to establish a program like Georgia's HOPE Scholarship. When resources are available, state leaders should invest them in programs that will produce the best results.

Financial assistance programs that are most likely to show the best results are those that serve students who meet academic expectations in high school and are likely to succeed in college and whose education after high school could be jeopardized by their family's finances. Financial aid, especially grant funds, should be distributed where they will have the most impact on increasing both access to and completion of postsecondary educational programs.

Increasing participation in higher education calls for state policies that:

- Encourage students to take more challenging courses in high school to better prepare for further education;
- Result in high-quality curriculum and teaching in high school;
- Ensure adequate support services for students as they move from high school to college and during their freshman year;
- Improve the transferability of courses and programs among colleges and universities;
- Encourage students to stay in college and earn degrees; and
- Reduce geographical and financial barriers to education beyond high school.

The most important thing for states to determine about their scholarship or grant programs is how the funds can be used most effectively to increase participation in postsecondary education. Federal, state and institutional need-based programs have focused on giving students access to higher education and a choice about which college or university to attend. When policy-makers consider expanding existing state scholarship and grant programs or establishing new ones, they need to ask the following questions:

- Do existing financial aid programs meet the financial needs of all qualified students? Do financial barriers make higher education impossible for qualified students from families with the least ability to pay?
- How do existing federal, state, institutional and private financial aid programs encourage students to meet high expectations and standards of learning?
- Will the program encourage high school students to become better prepared for college-level work?
- Will the program serve students who meet academic expectations and are likely to succeed in college?
- Will financial aid programs reinforce efforts to increase the percentage of students at two- and four-year colleges who complete programs?
- Are the programs easily understood? Are the procedures for applying simple?

Program; year created	Maximum award; year of first awards	Eligibility requirements
Florida Bright Futures; 1997	Academic: tuition, fees and book allowance. Merit: 75 percent of tuition and fees. Gold Seal Vocational: 75 percent of tuition and fees. First awards in 1997.	Academic: 3.5 grade-point average in college preparatory courses; maintain a 3.0 grade-point average in college to renew. Merit: 3.0 grade-point average in college preparatory courses; maintain a 2.75 grade-point average in college to renew. Gold Seal Vocational: 3.0 overall and 3.5 grade-point average in vocational courses; maintain a 2.75 grade-point average in post-secondary courses to renew.
Georgia HOPE Scholarships; 1993	Tuition, fees and book allowance up to $3,000. First awards in 1994.	3.0 grade-point average in high school for college preparatory curriculum and 3.2 grade-point average for other curricula; maintain 3.0 grade-point average in college to renew. Beginning in 2000 high school grade-point average in core courses will determine eligibility.
Kentucky Educational Excellence Scholarships; 1998	Maximum of $2,500. First awards in 1999.	Eligibility is based on student performance in each year of high school. Amount of award varies based on annual grade-point average in high school. For example, a student achieving a 2.5 grade-point average in high school will receive $125 in each year of college; a student with a 4.0 grade-point average in high school will receive $500 in each year of college. Annual bonuses will be given based on ACT scores.
Louisiana Tuition Opportunity Program for Students; 1997	Opportunity awards: tuition at public colleges. Performance awards: tuition at public colleges plus $400. Honors awards: tuition at public colleges plus $800. First awards in 1998.	Opportunity awards: 2.5 grade-point average in high school and ACT score at or above state average; maintain 2.3 grade-point average in first year and 2.5 grade-point average thereafter to renew. Performance awards: Top 5 percent of high school class, 3.5 grade-point average in high school and minimum ACT score of 23; maintain 3.0 grade-point average in college to renew. Honors awards: Top 5 percent of high school class, 3.5 grade-point average and minimum ACT score of 27; maintain 3.0 grade-point average in college to renew.
Maryland Science and Technology Scholarship Program; 1998	$3,000 per year. First awards in 1999.	High school grade-point average of 3.0 and must be seeking degree in high-demand fields identified by Maryland Higher Education Commission; maintain 3.0 grade-point average in college to renew.
South Carolina Palmetto Scholars; 1996	$5,000. First awards in 1997.	Top 5 percent of high school class, a 3.5 grade-point average and combined SAT score of 1200 (or ACT equivalent); maintain a 3.0 grade-point average in college to renew.
South Carolina Legislative Incentives for Future Excellence; 1998	$2,000 at four-year colleges; $1,000 at two-year colleges. First awards in 1998.	High school grade-point average of 3.0 and SAT score of 1000 (or equivalent); maintain 3.0 grade-point average and complete 30 credit hours each year in college to renew.

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